IMPACT OF SERVICE QUALITY ON CUSTOMER RETENTION: A COMPARATIVE STUDY IN INDIAN BANKING INDUSTRY

(With Special Reference to Agra Region)

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Introduction

In the organized segment of Indian economy, the banking sector occupies an important place in nation's economy. It plays a pivotal role in the economic development of a country and forms the core of the money market in developing country. Banks have to deal with many customers every day and render various types of services to its customer.

The banking industry like many other financial service industries is facing a rapidly changing market, new technologies, economic uncertainties, fierce competition and more demanding customers and the changing climate has presented an unprecedented set of challenges. Banking is a customer oriented service industry, therefore, the customer is the focus and customer service is the differentiating factor.

Customer satisfaction, a business term, is a measure of how products and services supplied by a company meet or surpass customer expectation. It varies from person to person and service to service. A customer can be defined as a user or potential user of banking services. A customer would include an account holder, or a person carrying out casual business transactions with a bank. The efficiency of a banking sector depends upon how best it can deliver services to its target customers. In order to survive in this competitive environment and provide continual customer satisfaction, the banking services providers are required to frequently increase the quality of services.

Customer satisfaction has been an important theoretical and practical issue for most marketers and consumer researchers. Customer satisfaction has been considered a key to success in today's highly competitive business environment. The importance of customer satisfaction in strategy development for customer and market oriented firms cannot be underestimated. Satisfaction has a significant impact on customer loyalty (Sharma and Patterson, 2000) [1] and, as a direct antecedent, leads to commitment in business relationships (Burnham et al., 2003) [2], thus greatly influencing customer repurchase

intention (Morgan and Hunt, 1994) [3]. Indeed, the impact of satisfaction on commitment and retention varies in relation to the industry, product or service, environment, etc. Customer service is concerned with the creation, development and enhancement of individualized customer relationship with carefully targeted customers resulting in maximizing their total customer lifetime value by giving them satisfaction against their expectations. Today approach towards customer service emphasizes on keeping as well as winning the customers. Today focus of banks has shifted from customer acquisition to customer retention. Service Quality plays a major role in customer satisfaction and creating brand loyalty in banking sector. In the competitive environment in the banking sector, customer satisfaction and service quality have emerged as one of the important aspect. The rapid growth and competitive competition in service sectors, in developing countries, has made it significantly important for the organizations to measure and evaluate their service quality.

The importance of extending speedy, efficient, fair and courteous customer service in banking industry is being regularly emphasized by the Government of India (GOI) and Reserve Bank of India (RBI). They have set up various high level Working Groups and Committees which led to considerable improvement in customer service in banks [4].

Current Scenario of Service Quality in Indian Banks

In the changing banking scenario of 21st century, the banks had to have a vital identity to provide excellent services. Banks now a day have to be of world-class standard, committed to excellence in customers' satisfaction, and to play a major role in the growing and diversifying financial sector (Balachandran, 2005). There has been a remarkable change in the way of banking in the last few years. Customers have also accurately demanded globally quality services from banks.

Banking sector of India is running in a dynamic challenge concerning both customer base and performance. Service quality is an indispensable competitive strategy to retain customer base. Service quality plays a major role in getting customer satisfaction. Banks are trying hard to win customer satisfaction by providing better quality services.

Major services introduced in regard to improving customer service included:

- Setting up of a separate Customer Service Department in Reserve Bank of India.

- Release of a "Code of Bank's Commitment to Customers", a collaborative initiative of the RBI, banks to provide a framework for a minimum standard of fair practice on various banking transactions.
- Banks were advised to display their service charges and fees in their home page of the respective websites.
- Banks to place before the respective boards, a statement of complaints received from customers and its analysis.
- Banks are required to convey customers in writing the main reasons for rejection of the loan application in the case of all categories of loans.
- Guidelines were issued to banks permitting them door step banking services with the approval of the respective boards.

Review of Literature

A literature review is a text written by someone to consider the critical points of current knowledge including substantive findings, as well as theoretical and methodological contributions to a particular topic.

National Study

Maniprakash (2013) "Service Quality and Loyalty in Foreign Banks in India", South Asian Journal of Socio- Political Studies Vol. 13 Issue: 2 pp 76-78 (ISSN: 0972-4613) this article examines the impact of service quality and customer satisfaction in foreign banks in India on service transcendence. Also impact on customer loyalty is also measured. Structural equation modeling approach was adopted to test the conceptual model. The implications would aid banks to formulate their customer relationship and retention strategies.

Garima Malik (2012) "A Comparative Study on the Service Quality and Customer Satisfaction among Private and Public banks in India", Pacific Business Review International Vol.4 Issue: 3 pp 51-64 (ISSN: 0974-438X) this study focuses on the service quality and customer satisfaction among the private and public sector banks in India, to measure the awareness level of the customers and analyze the expectations of the customers to their banks. Various statistical tools used for analyzing the customer data like SERVQUAL, factor analysis, weighted average score. The result indicates that on various parameters of service like awareness level, various services offered, service delivery aspect

etc. This has larger implications on the public and private sector banks in India with respect to customer services.

Ismail A. Bootwala & Dr. Anjali Gokhru (2012) "A Study on Customers' Perception on Services provided by banks in the region of Ahmadabad", Pacific Business Review International Vol.5 Issue: 5 pp 109-121 (ISSN: 0974-438X) in their study service quality issue are critically examines from the perspectives of customers with respect to a developing economy India. In addition, it also examined the impact of various demographic variables on selection of banks.

Prof J. Gopalkrishnan, Dr. B.B Mishra, Dr. V.K. Gupta & Prof. A. Vetrivel (2011) "The impact of Service Quality and Customer Satisfaction on Customer Retention in the Indian Banking Industry: An Empirical Analysis", The International Journal's : Research Journal of Social Science & Management Vol.1 Issue: 3 pp 52-68 (ISSN: 2010-457X) examines the relationship between service quality, customer satisfaction & customer retention. This study empirically examines the potential constructs in customer retention by investigating the effects of service quality and customer satisfaction.

Mishra and Jain (2007) "Constituent Dimensions of Customer Satisfaction: A Study of Nationalized and Private Banks", Prajnan Vol.35 Issue: 4 pp 390-398. Explain various dimensions of customer satisfaction in nationalized and private sector banks. The study concludes that satisfaction of customers is an invaluable asset for modern organizations, providing unmatched competitive edge, which helps in building a long term relationship. The best approach to customer retention is to deliver a high level of customer satisfaction that result in strong customer loyalty. The two-stage factor analysis is to arrive at the dimensions of customer satisfaction. The study analyzed ten factors and five dimensions of customer satisfaction for both nationalized and private sector bank.

International study

Kashifa Ahmed and Tanbir Ahmed Chowdhury (2013) "Measuring Customer Satisfaction in Nationalized Commercial Banks and Private Commercial Banks of Bangladesh through SERVQUAL Model", International Review of Business and Social Sciences Vol.2 Issue: 4 pp 11-22 (ISSN: 2226-4124) in his study found that nationalized commercial banks and private commercial banks are almost equally reliable to the customers but services of private commercial banks give more assurance to the customers. The study

revealed that the performance of nationalized commercial banks suffer in terms of empathy and tangibles. The customers feel that private commercial banks are performing better than nationalized commercial banks. So Nationalized Commercial Banks needs to take initiative to improve the service quality.

Shanka (2012) "Bank Service Quality, Customer Satisfaction and Loyalty in Ethiopian Banking Sector", Journal of Business Administration and Management Sciences Research Vol. 1 Issue: 1 pp 001- 009 (ISSN: 2315- 8727) this research measures the quality of service offered by private banks operating in Ethiopia. It tries to investigate the relationship between service quality, customer satisfaction and loyalty. The five dimensions of SERVPERF model i.e. Reliability, Assurance; Tangibility, Empathy, and Responsiveness were used to measure the quality of service offered by the private banks. Correlation and multiple regressions were used to investigate the relationship between dependent and independent variables. The correlation results indicate that there is a positive correlation between the dimensions of service quality and customer satisfaction. And regression test showed that service quality has positive impact on overall customer satisfaction. The research proves that empathy and responsiveness plays the most important role in customer satisfaction level followed by tangibility, assurance, and finally the bank reliability. In addition findings also indicate offering high quality service increase customer satisfaction, which in turn leads to high level of customer commitment and loyalty.

Samraz Hafeez & Bakhtiar Muhammad (2012) "The impact of Service Quality, Customer Satisfaction and Loyalty Programs on Customer's Loyalty: Evidence from Banking Sector of Pakistan" International Journal of Business and Social Science Vol.3 Issue: 16 (ISSN: 2219-6021) this research focuses on finding the impact of service quality, customer satisfaction and loyalty programs on customer loyalty in banking sector of Pakistan. In addition this study reveals that service quality, customer satisfaction and loyalty programs are the important factors that can increase the loyalty of a customer so banks must focus on providing loyalty programs to their loyal and valued customers. Research also indicates that banks should focus on improving the quality of their services for better and greater customer satisfaction and customer loyalty.

Echchabi Abdelghani (2012) "Applying SERVQUAL to Banking Services: An Exploratory Study in Morocco", Studies in Business & Economics Vol.7 Issue: 1 pp 62-72 (ISSN: 1842-4120) studies the service quality perceptions and expectations for the Moroccan banking customers by using SERVQUAL model. In this study, findings show that responsiveness, assurance and empathy are the important dimensions considered by the customers while assessing the quality of service rendered by the Moroccan banks. The major contribution of the study is that it extends the usage of SERVQUAL model by testing its applicability.

Arvinlucy Akinyi Onditi (2012) "Implications of Service Quality on Customer Loyalty in the Banking Sector: A Survey of Banks in Homa Bay County", Kenya, International Journal of Business and Social Science vol.3 issue: 21 (ISSN:2147- 4478) determines the effect of service quality on customer loyalty. The descriptive statistics and multiple regression analysis were used to analyze data and the results conclude that service quality has a significant effect on customer loyalty. Hence service quality is significant predicator of customer loyalty. The study concludes that quality of service is the single most significant determinants of customer loyalty among customers in the banking sector.

Sanmugan Annamalah, Jayaraman Munuswamy, Shankar Chelliah, Mohamed Suaiman and Sivamurugan Pandian (2011) "Service Quality Transformation and Its Impact on Customer Satisfaction and Loyalty in Malaysian Retail Banking Sector, World Applied Sciences Journal Vol.15 Issue: 10 pp 1361-1368 (ISSN: 1818-4952) this study investigates the importance of antecedents of customer loyalty such as customer satisfaction and service quality dimensions. It addresses whether the dimensions of service quality impacts customer satisfaction eventually leading to customer loyalty. The Structural Equation modeling technique was used in this analysis to determine customer satisfaction and customer loyalty. The results suggest that empathy and assurance are the key factors in delivering customer satisfaction, whereas, tangibility, reliability and responsiveness are found to least impacting customer satisfaction. The relationship between customer satisfaction and customer loyalty is also found to be very significant.

Jenet Manyi Agbor (2011) "The Relationship Between Customer Satisfaction and Service Quality: A Study of Three Service Sectors in Umea", Umea School of Business, examines the relationship between customer satisfaction and service quality in service sectors with respect to the service quality dimensions. Convenience sampling technique as used to

collect quantitative data from customers of Umea University. The findings imply that service quality is not the only factors that could lead to customer satisfaction in service sectors; that service quality dimension varies in the different service sectors. The findings suggest that to provide quality service in order to satisfy customers, organizations in this kind of service sectors need to improve on the dimensions of service quality. This study contributes to existing theories by confirming or adding value to the relationships that are involved in customer satisfaction, service quality and SERVQUAL dimensions. It provides results that could be useful to managers in business organizations for strategic planning.

Rootman, Tait & sharp (2010) "Customer Retention in British and Canadian Retail Banks: Lessons for South Africa" International Research Symposium in Service Management, Le Meridian Hotel, Mauritius 24-27 August 2010 (ISSN: 1694-0938) this study identifies the variables influencing customer retention in retail banks both from clients and bank managers' perspectives in South Africa, Britain and Canada. In addition to this study the empirical results shows that the personalization of banking products and/or services and banking fees influences customer retention.

Jayaraman Munuswamy, Shankar Chelliah & Hor Wai Mun (2010) "Service Quality Delivery and its impact on Customer Satisfaction in the Banking Sector in Malaysia", International Journal of Innovation, Management & Technology Vol. 1 Issue: 4 pp 398-404 (ISSN: 2010-0248) this research focused on the measurement of customer satisfaction through delivery of service quality in the banking sector in Malaysia. It is used to study the relationship between service quality dimensions and customer satisfaction. In addition, this study highlights implications for marketers in banking industry for improvements in delivery of service quality.

Agathee (2010) "An Assessment on Service Quality in the Mauritian Banking Sector", International Research Symposium in Service Management, Le Meridien Hotel, Mauritius, 24-27 August 2010 (ISSN: 1694-0938) result show huge gap between customers' perception and expectation for reliability and responsiveness. This study highlights the need for bankers to gear customer service and quality improvements efforts towards components of reliability and responsiveness.

David Cohen, Christopher Gan, Hua Hwa Au Yong and Esther Choong (2007) "Customer Satisfaction: A Study of Bank Customer Retention in New Zealand". Banks and Bank Systems vol.2 Issue: 1 (ISSN: 1991-7074) Customer retention is an important element of banking strategy in today's increasingly competitive environment. Bank management must identify and improve upon factors that can limit customer defection. These include employee performance and professionalism, willingness to solve problems, friendliness, and level of knowledge, communication skills, and selling skills, among others. Furthermore, customer defection can also be reduced through adjustments in a bank's rates, policies and branch locations. Clearly, there are compelling arguments for bank management to carefully consider the factors that might increase customer retention rates. Several studies have emphasized the significance of customer retention in the banking industry. However, there has been little effort to investigate factors that might lead to customer retention. Most of the published research has focused on the impact of individual constructs, without attempting to link them in a model to further explore or explain retention. If retention criteria are not well managed, customers might still leave their banks, no matter how hard bankers try to retain them.

Huseyin Arasli, Salih Turan Katircioglu, Salime Mehtap-Smadi (2005) "A Comparison of Service Quality in the Banking Industry: Some Evidence from Turkish- and Greek-speaking areas in Cyprus", International Journal of Bank Marketing, Emerald vol.23. (ISSN: 0265- 2323) The purpose of this was to analyze and compare service quality in the commercial banking sector of a small island economy – Cyprus and to investigate the relationship between overall bank customer satisfaction in the Turkish- and Greek-speaking areas of Cyprus and positive word-of-mouth about their banks. Research results revealed that the expectations of bank customers in both areas were not met and that the largest gap was found in the empathy dimension. The assurance dimension had the largest influence on customer satisfaction and overall satisfaction of bank customers in both areas of Cyprus had a positive effect on their word-of-mouth.

Roger Hallowell (1996) "The Relationship of Customer Satisfaction, Customer Loyalty and Profitability: An Empirical Study", International Journal of Service Industry Management Vol.7 Issue: 4 pp 27-42 (ISSN: 0956-4233) conducted a research on customer satisfaction, loyalty and profitability and found that as compared to public sector, private sector bank customers' level of satisfaction is comparatively higher.

Rust and Zahorik (1993) & Sheaves and Barnes (1996) "Customer Satisfaction, Customer Retention and Market Share", Journal of Retailing Vol.69 Issue: 2 pp 193-215 (ISSN:0022-4359) Customer satisfaction has been considered as an important source of long-term business success and building a relationship with a customer is a good way to retain loyal customers in the long-term.

Rust, R.T. and Subramanian, B. (1992) "Making Complaints a Management Tool'', Journal of Marketing Management, Vol.1 Issue: 3, pp. 41-5 (ISSN: 1472-1376) stated that customer satisfaction has been deemed directly to affect customer retention and companies' market share.

Need of the Study

The primary reason for the emergence of the study is the change in the marketing environment. Today marketing model is changing from the product-centered approach to customer-centered approach. Due to present competitive world in terms of quality, competition, customer satisfaction and environment it will be appropriate to study the areas where the customer are not satisfied to a maximum extent which results in quitting of the customers. This proposed study examines the perception level of customers regarding the customer satisfaction and customer retention in the context of service quality offered by public and private sector Indian banks.

Objectives

The main objective of the study is to know about the present status of customer retention regarding service quality in Indian banking sector. The major objectives of the proposed study are:

1. To study the present status of service quality offered by Indian banking sector.
2. To analyze the perceptions of customer regarding the service quality in banks.
3. To evaluate the impact of service quality on customer satisfaction and customer retention.
4. To suggest a model that improves the service quality of Indian Public and Private sector Banks.

As per the requirement of time, Researcher may set new objectives for the proposed study.

Scope of the Study

Scope of the study is confined to the Indian Banks in terms of customer satisfaction & customer retention. The time period taken for the proposed study will be for five years i.e.2007-2012.

Lists of Public and Private Sector Banks in India:

S. No.	PUBLIC SECTOR BANKS	PRIVATE SECTOR BANKS
1.	State Bank of India	HDFC Bank
2.	Bank of Baroda	ICICI Bank
3.	Punjab National Bank	YES Bank

Research Methodology

Data Collection:

To achieve the above stated objectives, both primary and secondary data will be used.

Primary Data- For the collection of Primary data, a well structured Questionnaire based on the selected factors (reliability, assurance, tangibles, empathy and responsiveness) will be constructed. The questionnaire will be executed to the customers and interviews with banks employees will also be administered by the researcher. A minimum of 6 branches will be approach to collect primary data from the general public who holds accounts with the banks.

Secondary Data- Secondary data will be collected from:

1. Published records of RBI and Banks Reports
2. Newspapers: Economics Times, Hindustan times etc.
3. Standard text books on customer satisfaction.
4. Magazines: India Today, Business Today etc.
5. Related websites: www.rbi.org.in etc
6. Different researches, published research papers, thesis, journals, articles etc.

RESEARCH DESIGN ADOPTED

PARAMETERS	CUSTOMER SURVEY
1.Research Design	Descriptive Survey
2.Sampling Method	Non-probability Sampling Method
3.Sample Size	300 customers
4.Sampling Area	Agra
5.Research Approach	Internet Survey, Books, Journals, Thesis, Newspaper, Published records etc.
6.Research Instrument and Contact Method	Questionnaires filled through personal visit from individual clients and interview with banks employees.
7.Sampling Unit	Public and Private sector Indian Banks
8.Sample Element	Individual Clients
9.Data Collection	Primary and Secondary data
10.Data Analysis	Descriptive & Inferential statistics

Sampling Design

This study will be based on customer-centered approach. The researcher will follow Non-probability sampling method in the selection of sample. As it is felt that it would be useful to attempt a comparative study between Public and Private sector Banks. Hence, the sample units will be chosen primarily on the basis of the convenience to the researcher.

The sample for the study will be selected through a three stage sampling procedure. The first stage will involved the choice of banks (i.e. public and private banks). According to the Economics Times Lists- India's Top 500 Companies 2012 [5], the selection of bank branches will be made on the basis of revenue, which constitutes the second stage of the sampling process. Three branches for each of the chosen public sector banks and three branches for each of the private sector banks will be selected for the study. 50 Customers from each branch will be targeted for data collection needed for the study. Thus the final sample for the study will consist of 6 banks branches (three from public and three from private sector banks) which generate 300 customers for studying customer satisfaction and customer retention regarding the service quality offered by public and private sector Indian banks.

Analysis of data

In this study, data collected from primary and secondary survey will be analyzed by various statistical techniques and tools like Chi-square test, Correlation, SERVQUAL model etc. The conclusion would be interpreted accordingly.

The following table reveals the methodology to attain the above objectives:

OBJECTIVES	SOURCES	METHODS	RESPONDENTS
1. To study the present status of service quality offered by Indian banking sector.	Secondary data.	Published literature, records, journals, books etc.	_____
2. To analyze the perceptions of customer regarding the service quality in banks.	Primary data.	Survey, interviews, questionnaires.	Customers.
3. To evaluate the impact of service quality on customer retention.	Primary data	Survey, interviews, questionnaires.	Customers.
4. To suggest a model that improves the service quality of Indian Public and Private sector Banks.	Primary data	Survey, interviews, questionnaires.	_____

Justification of the study

In the last, the researcher thinks that the proposed study on customer satisfaction and customer retention regarding service quality in Indian banks will contribute to the Indian banking sector. As we know that "A customer is the king" in any business and whole service industry clusters around him and it is a well known fact that no business can exist without customers. So, this study may replicate in other service sectors also to solve the same problem that supports decision makers to enhance the quality of service. In addition, it

facilitates the need for bankers to gear customer service and quality improvement efforts towards dimensions of service quality.

PROPOSED CHAPTER PLAN OF THE STUDY

Contents

Chapter 1: Introduction

- Concepts of Service Quality Customer Satisfaction and Customer Retention in Indian Banks
- Review of Literature - At National Level and International Level
- Objectives of the study
- Methodology
- Limitations

Chapter 2: Service Quality as a Customer Retention tool in Indian banking industry

Chapter 3: Profile of selected Banks

Chapter 4: Analysis of Data and Comparative study of Service Quality offered by selected Public and Private sector banks

Chapter 5: Development of Service Quality Model for banking industry

Chapter 6: Conclusions and suggestions

Annexure: Appendix

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3. Morgan, R.M. and Hunt, S.D. (1994). "The commitment-trust theory of relationship marketing", Journal of Marketing, 58(3), pp. 20-38.
4. Report of the committee on consumer services in banks, Customer Service Department, RBI published date: 3 Aug 2011 press release: 2009-2010/1712.
5. Economics Times Lists : India's Top 500 Companies 2012

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Books

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2. A Handbook for Measuring Customer Satisfaction and Service Quality.
3. Customer Service in Banks- An Empirical Study

Journals

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2. International Journal of Trade and Commerce
3. Apex Journal- Journal of Business Administration and Management Science Research
4. Emerald Journal
5. Pacific Macmillan Journal

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